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The modern corporation

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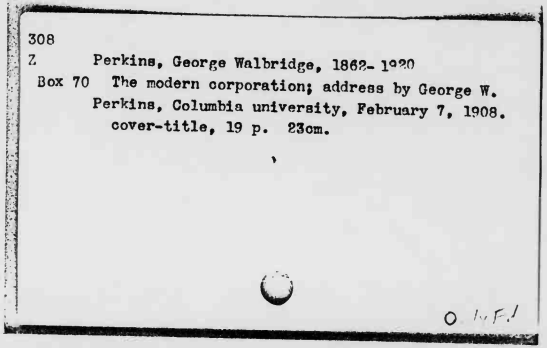
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THE MODERN CORPORATION

BUTLER CIRCULATION
COLUMBIA UNIVERSITY

ADDRESS BY

GEORGE W. PERKINS

COLUMBIA UNIVERSITY

FEBRUARY 7, 1908

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The Modern Corporation.

In the modern corporation we are confronted with a fact and not a theory. Whatever may be the individual attitude towards it, the corporation is here. What caused it, what it is doing, and what is to become of it are live questions, vital to all the people.

A corporation, in a way, is but another name for organization. Broadly speaking, the first form of organization between human beings, of which we know, was the clan or tribe, in which the every-day conduct of the individuals was determined by the necessities of the group. This passed on into national organization, and then came the Church as a growing and vast organization. Latest of all has come the organizing of business.

But before all this, in the very beginning of things, the universe was organized—and all that man has done in society, in the Church, in business, and all that he ever can do in the centuries to come, can never bring to pass so complete a form of organization, so vast a trust, so centralized a form of control, as passes before our eyes in each twenty-four hours of our lives as we contemplate that all-including system of perfect organization called the Universe. It does not require a very vivid imagination to picture the waste, the destruction, the chaos that would follow if there were not perfect

organization, perfect co-operation, perfect regulation, perfect control in the affairs of the universe. How could we live, for example, if there were constant competition between day and night, or a constant struggle for supremacy between the seasons? Does any one, for a moment, think that he would prefer such a condition to the co-operation that now exists through all the affairs of the universe?

Organization being the all-permeating principle of the universe, the presumption is, therefore, in favor of organization wherever we find it or wherever it can be used. The corporation of to-day is entitled to that presumption; its underlying cause is not the greed of man for wealth and power, but the working of natural causes—of evolution.

Business was originally done by individuals trading with one another; then by a firm of two or more individuals; then by a company; then by a corporation, and latterly by a giant corporation or what is commonly (though perhaps inaccurately) called a "trust." Each step was brought about by some great change that took place in the conditions under which the people of the world lived and worked; each step was, in fact, mainly determined by discoveries and inventions of the human mind.

With the ox-team and the hoe we had men trading as individuals with individuals; with the sailing vessel and the stage-coach we had trade carried on by firms; with the advent of the company we had the locomotive, the steamboat, the reaping machine and the telegraph; with the birth of the

larger corporation we had the express train, the Atlantic cable, the ocean liner, the local telephone, the seeder, the reaper and the binder; with the giant corporation came the Twentieth Century Limited, the crossing of the ocean in five days, the long-distance telephone, wireless telegraphy, and a great extension of machinery into agricultural work.

In our forefathers' time it took about half as long to sail down the Hudson River from Albany to New York as it now takes to cross the Atlantic. The actual distance from Albany to New York is no less, nor is the distance from New York to London any less, now than then, but the inventions of man have so compressed both space and time that the financial and commercial markets of America and Europe are in constant exchange with one another every moment of the day. The business man in New York or Chicago can exchange several cable messages with London or Paris during the business hours of a day, and whenever an hour is clipped off the record of an ocean greyhound the people of the world are drawn so much nearer together. Because of the inventions of man, the great American desert of our boyhood geographies has, within a comparatively few years, largely become a vast fertile field, and, again, because of these inventions, coupled with organized business methods the product of this vast field is being marketed in remote parts of the globe.

The days when business was a local affair of individual with individual were the days when people

were scattered, knowing little of each other and having no dealings with each other outside the radius of a few miles. Then steam and, later, electricity came into man's service; and then, by leaps and bounds, the possibilities of trade became extended to a radius of hundreds of miles, even of thousands of miles. Vast possibilities of international trade loomed up. The corporation sprang into active being as an inevitable result of this expansion of trade; for no one man, no firm, no small company, could provide the capital or the organization to cope with such opportunities. The only bridge that can span the ocean is the corporation. The real cause of the corporation was not so much the selfish aims of a few men as the imperative necessities of all men.

The first stage of corporationism was one of conflict—the old destructive competition carried forward under the new business forms. Trade could be carried further, much further than before; and so A invaded B's territory and B retaliated. The fighting became faster and more furious, and the war in commerce became a hand-to-hand conflict. The trenches were being filled with able, splendid men who fell in the colossal struggles. Cut rates and rebates became the order of the day. Many railroads and many houses which had been successful in legitimate lines of business went down in bankruptcy. Labor suffered and the public suffered. The cost of doing business steadily increased; for war costs money. It became imperative that something be done to end the havoc.

Prosperity could come only with peace. Instinctively, in a way unconsciously, men began to get together—not so much for profit as for protection; and so, under conditions which, in the mechanical development of the world, came on as naturally as day follows night, the great corporation came into existence and is the live, burning issue of to-day.

Perhaps the most useful achievement of the great corporation has been the saving of waste in its particular line of business. By assembling the best brains, the best genius, the best energy in a given line of trade, and co-ordinating these in work for a common end, great results have been attained in the prevention of waste, the utilizing of by-products, the economizing in the manufacture of the product, the expense of selling, and through better and more uniform service.

This same grouping of men has raised the standard of their efficiency. Nothing develops man like contact with other men. A dozen men working apart and for separate ends do not develop the facility, the ideas, the general effectiveness that will become the qualities of a dozen men working together in one cause. In such work emulation plays a useful part; it does all the good and none of the harm that the old method of destructive competition did; the old competition was wholly self-seeking and often ruinous, while the new rivalry, within the limits of the same organization, is constructive and uplifting. Thus the great corporation has developed men of a higher order of business ability than ever appeared under the old conditions; and

what a value this has for the coming generation! The opportunity, the inducement it provides to become all-around larger men than those of earlier generations could become!

We have heard many warnings that because of the great corporation we have been robbing the oncoming generation of its opportunities. Nothing is more absurd. The larger the corporation, the more certain is the office boy to ultimately reach a foremost place if he is made of the right stuff, if he keeps everlastingly at it, and if he is determined to become master of each position he occupies.

In the earlier days, the individual in business, as a rule, left his business to his children—the firm to its relations. Whether or not they were competent did not determine the succession. But the giant corporation cannot act in this way. Its management must have efficiency—above and beyond all else it must have the highest order of ability; and nothing has been more noticeable in the management of corporations in the last few years than that "influence," so called, as an element in selecting men for responsible posts, has been rapidly on the wane. Everything is giving way and must give way to the one supreme test of fitness.

And is it not possible that the accumulating of large fortunes in the future may be curtailed to a large extent through the very workings of these corporations? Are there not many advantages in having corporations in which there are a large number of positions carrying with them very handsome annual salaries, in place of firms with comparatively few partners—the annual profits of each one of whom were often so large that they amassed fortunes in a few years? A position carrying a salary so large as to represent the interest on a handsome fortune can be permanently filled only by a man of real ability, so that in case a man who is occupying such a position dies, it must, in turn, be filled with another man of the same order—while the fortune might be, and most likely would be, passed on regardless of the heir's ability. Therefore, the more positions of responsibility, of trust and of honor, that carry large salaries, the more goals we have for young men whose equipment for life consists of integrity, health, ability and energy.

Furthermore, the great corporation has been of benefit to the public in being able to standardize its wares, so that they have become more uniformly good. Wages are unquestionably higher and labor is more steadily employed; for, in a given line of trade, handled to a considerable extent by a corporation, there are practically no failures; while, under the old methods of bitter, relentless warfare, failures were frequent, and failure meant paralysis for labor as well as for capital.

The great corporation is unquestionably making general business conditions sounder. It is making business steadier; for one reason, because firms inevitably change and dissolve, while a corporation may go on indefinitely. It is making business steadier, for another and more potent reason—because it is able to survey the field much better than

could a large number of firms and individuals and, therefore, vastly better able to measure the demand for its output and, if properly managed, to prevent the accumulation of large stocks of goods that are not needed—a condition which often arose under the old methods when many firms were in ruthless competition with one another in the same line of business, oftentimes producing serious financial difficulties for one and all.

Broadly and generally speaking, the corporation as we know it to-day, as we see it working and feel its results, is in a formative state. In many cases actual and desperately serious situations caused it to be put together hurriedly. In many cases serious mistakes have been made in the forms of organization, in the methods of management, and in the ends that have been sought. In some instances the necessity for corporations has grown faster than has the ability of men to manage them. Yes, mistakes have been many and serious. But the corporation is with us; it is a condition, not a theory, and there are but two courses open to us—to kill it or to keep it. If you would kill it you must kill the cause, or the thing will come back to plague you. The principal causes are steam and electricity.

Could anything be more dangerous to the public welfare than steam and electricity themselves? Then why not prohibit their use and, so far as possible, abolish them? Has anyone ever suggested this? No. Why? Because their benefits were too apparent, and so we have bent our energies towards

regulating and controlling them—by using all that is good in them and carefully protecting ourselves from all that is injurious. If we are not willing to exterminate the cause of corporations we can never permanently exterminate the corporation itself There is, then, but one thing left to do, viz., to regulate and control them; to treat them as we have treated steam and electricity; to use the best that is in them and to protect ourselves from the worst that is in them.

A large percentage of the mistakes of corporate management have occurred because managers have failed to realize that they were not in business as individuals, but were working for other people, their stockholders, whom they were in honor bound to honestly and faithfully serve; further, that they owed a duty to the general public and could, in the long run, best serve themselves and their stockholders by recognizing that duty and respecting it.

Then, too, many of our corporations, being of comparatively recent origin, have, at the outset, been managed by men who were previously in business, in some form or another, for themselves; and it has been very difficult for such men to change their point of view—to cease from looking at questions from the sole standpoint of personal gain and personal advantage, and to take the broader view of looking at them from the standpoint of the community of interest principle.

It is by no means clear that the danger-point in the development of corporations is found in the giant corporation. Indeed, it is more likely to

be found in the corporation of lesser size; because the latter does not attract the eye of the public sufficiently to have its managers impressed with the fact that they are semi-public servants—responsible not only to their stockholders but to the public as well. It is easier and more natural for a giant corporation to adopt a policy of publicity with the public and of fair-dealing with its associates in the same trade, because such a course, from the broad, far-reaching view of the great corporation, becomes the wisest, most successful course. Then, again, the relation of the giant corporation to its labor is an entirely different relation from that of the small corporation or the firm to its labor; the officers and trustees of a giant corporation instinctively lose sight of the interest of any one individual, because such interest at best is infinitesimal compared with the whole. This places the officers and trustees of the giant corporation in a position where they can look on all labor questions without bias and without any personal axe to grind—solely from the broadest possible standpoint of what is fair and right between the public's capital, which they represent, and the public's labor, which they employ. In short, they assume on all such matters the attitude of the real trustee, the impartial judge, the intelligent, well-posted and fair arbitrator.

The great semi-public business corporations of the country, whether they be insurance, railroad or industrial, have in our day become not only vast business enterprises but great trusteeships; and

there would be far less attacking of corporations if this truth were more fully realized and respected. The larger the corporation becomes, the greater become its responsibilities to the entire community. Moreover, the larger the number of stockholders, the more it assumes the nature of an institution for savings.

It is not sufficient in corporate management to do the best one can from day to day. Corporate responsibility extends beyond to-day. It is the foresight, the planning ahead, the putting the house in order for the storms of the future, that are the true measure of the best and highest stewardship as well as of the highest order of managerial ability.

The corporations of the future must be those that are semi-public servants, serving the public, with ownership widespread among the public, and with labor so fairly and equitably treated that it will look upon its corporation as its friend and protector rather than as an ever-present enemy, above all believing in it so thoroughly that it will invest its savings in the corporation's securities and become working partners in the business. It would have been impossible, in the day of the ox-team, for people in every State of this Union to be partners in any one business; and yet to-day we have at least one giant corporation made up of partners resident not only in every one of our States, but in almost every country in the world, and reinforced by thousands of its own employees having become stockholders themselves.

During the past few months, when the campaign

against corporations was most intense, when our country was in a turmoil of business perplexity and doubt, the people who, we are told, have so suffered because of the trusts and are so bitterly opposed to their existence, have been investing in these very securities to an unprecedented extent. To illustrate: During the past year the stockholders of the Great Northern Railway have increased in number from 2,800 to over 11,000. The stockholders of the Pennsylvania Railroad have increased from 40,000 to 57,000. The stockholders of the New York Central have increased from 10,000 to over 21,000. During the same period the number of the stockholders in the Steel Corporation increased by over 30,000; the total number of individuals holding stock in that corporation now exceeds 100,000, and the average holding of the $868,000,000 of stock of the Steel Corporation is to-day about 98 shares per person. Can there, then, be any question that these great institutions have become semi-public, and when we contemplate the alternative of exterminating or of regulating them, must we not realize that they are owned not by a few individuals but by a vast number of people representing our thriftiest class? That these corporations have thus become not only vast business enterprises but great and growing institutions for savings surely imposes a new and more sacred responsibility not only upon corporation managers but upon legislators as well.

If the managers of the giant corporations feel themselves to be semi-public servants, and desire

to be so considered, they must of course welcome supervision by the public, exercised through its chosen representatives who compose the government. Those who ask the public to invest money in an enterprise are in honor bound to give the public, at stated intervals, evidence that the business in question is ably and honestly conducted; and they should be not only willing but glad that some authority, properly constituted by our government, should say to stockholders and the public from time to time that the management's reports and methods of business are correct. They should be willing to do this for their own relief of mind, since the responsibility of the management of a giant corporation is so great that the men in control should be glad to have it shared by proper public officials representing the people in a governmental capacity.

There is scarcely a corporation manager of to-day, who is alive to his responsibilities, to the future growth of this country, and to the enormous opportunities before us for foreign trade, who would not welcome this kind of supervision could he but feel that it would come from the National Government, acting through an intelligent and fair-minded official; but to be faced with the requirement to report to and be supervised and regulated by 40 or 50 governments, with varying ideas and laws, of course suggests difficulties that are almost insurmountable obstacles. For business purposes, at least in the larger business affairs of this country and from a practical standpoint, State lines have been obliterated. The telegraph, the express

train and the long-distance telephone have done their work. For business purposes in this country the United States Government is a corporation with 50 subsidiary companies, and the sooner this is realized the sooner we can get the right kind of supervision of semi-public business enterprises and, in this way, give the public the publicity and the protection to which it is entitled in the conduct of business by corporations. In no other way can the public be protected from evils in corporation management.

The criticism is often made that this would amount to bringing business into politics.. That depends. We have at Washington a Supreme Court. Membership in that most honorable body is the goal of every aspiring lawyer. If, for distinguished service and ability, we honor lawyers by promoting them to decide our most difficult legal questions, why should we not honor our railroad men by promoting them to decide our most difficult railroad questions, our industrial men the industrial questions? For example: If we had at Washington a Railroad Board of Control, and that Board were composed of practical railroad men, would not membership in such a Board come gradually to be the goal of railroad men? And does any one, for a moment, think that if such a Board were composed of practical railroad men it would be especially partial to railroad interests? Certainly not. Once on such a Board a man could not fail to recognize the great responsibility and honor of the office and administer it

for the best interests of the public and of the rail roads at one and the same time. Thus the business man would merge into the public official, no longer controlled by the mere business view, and would act the part of a statesman, to the improvement of governmental administration and not to the lowering of its level.

This kind of expert, high-minded supervision would not be opposed by the business interests of the country. What they dread is unintelligent, inexperienced administration. National supervision, under a law requiring that those who supervise should be practical men thoroughly versed in their calling, would solve most of our difficult problems and be of the greatest possible benefit and protection to one and all.

To such rational supervision may we not look forward as a result of the sober second thought of the people and our legislators—of their calming down from the bitter denunciation of corporations which has been the prevailing outcry for some years.

In spite of what apparently has been an almost persistent determination to misunderstand or ignore his real purpose, the fact is that President Roosevelt, from the time that he was Governor of New York down to his message to Congress last week, has repeatedly proclaimed his belief that modern industrial conditions are such that combination is not only necessary but inevitable; that corporations have

come to stay, and that, if properly managed, they are the source of good and not evil.

The next period in corporation development should be a constructive one—constructive as to the relations of the corporation to its labor and to the public, and this can best be accomplished by the method of co-operation with supervision.

It is almost heresy to say that competition is no longer the life of trade, yet this has come to be the fact as applied to the old unreasoning and unreasonable competition, because of the conditions of our day. The spirit of co-operation is upon us. It must, of necessity, be the next great form of business development and progress. At this moment many people are looking askance upon the change, still believing in the old doctrine. They hold to it for several reasons: First, because they have inherited the belief. Second, because they think that competition means lower prices for commodities to the public. Third, because they think it provides the best incentive to make men work. This may have been the best known method at one time, but it is not and cannot be true in the mechanical, electrical age in which we live.

The highly developed competitive system gave ruinously low prices at one time and unwarrantedly high prices at another time. When the low prices prevailed labor was cruelly hurt; when the high prices prevailed the public paid the bills.

From every point of view the co-operative principle is to be preferred. It is more humane, more uplifting, and, with proper supervision, must provide a more orderly conduct of business—freer from failure and abuse, guaranteeing better wages and more steady employment to labor, with a more favorable average price to the consumer—one on which he can depend in calculating his living expenses or making his business plans.

So much for corporations. Now, may I detain you a moment longer while I say a word to the young men who are here to-day.

How hopeless would your condition be if the world were perfect—if there were nothing left for you to do to improve conditions—if those who had gone before had finished the job. Really, can you imagine a condition more discouraging, more hopeless to an oncoming generation? Happily, this is not your situation. Our corporations have made mistakes. Many of these have been pointed out. Things have been done wrongly. Many of these wrongs are now being corrected. But in those mistakes, in that mismanagement, lies the opportunity of the man of to-day and of the young man of to-morrow. Your task will be to search out and eliminate the bad in all that has preceded you—retaining the good, preserving and adding to it for the benefit of yourselves and of those who follow you.

Let us, then, take the best that we find, cut out the worst that we find, improve, develop, make more useful and beneficial.

In this great country of ours there stands out pre-eminently the inventive genius, the masterful ability, the resourcefulness, the courage, the op-

timism of America's business men. At no period in the world's development have there been in any given country at any one time so many men of from 20 to 30 years of age, standing ready to embrace so many opportunities and to move on to such splendid achievements, as we have in our United States to-day. It cannot be possible that these young men will be pessimists—that they will miss the legion of opportunities that are theirs!

I wonder if many of you realize how fortunate in one respect alone you are as compared with the young men in many other countries. You are not obliged to spend a number of the most impressionable years of your lives in compulsory military service, learning to obey orders which have no relation to the realities of life and its actual successes. Those precious years in this country are given to you to observe, to learn, and to prepare for the practical work of the world. Your individuality is not hampered or circumscribed by your being moulded into a machine in your early manhood. You are free to make of yourself what you will. What would the young men of Europe give for their opportunities if some magic wand could give them one currency, one language, one government, one people, from London to Moscow!

Success does not come by chance. It is an opportunity that has been lassoed and organized. I doubt if a man ever met with success, worthy to be called success, who was not an optimist—who did not believe in something heart and soul, and who did not play fair. And remember that when you set

about a task which you really want to accomplish, the work involved is not drudgery—it is the most invigorating sort of play.

Do not lose your red blood; whatever you are, wherever or however you are situated, keep your heart warm and your humanity at par. Push forward; be of good cheer. Believe in our people, in our methods, in our country, in your neighbor and in yourself; and remember, if you are going into business, that, after all is said and done—after your fortune is made, however great it may be—in the small hours of the night, in your heart of hearts, the thing you are really going to enjoy, take satisfaction in and be proud of—the thing that will carry your over the rough places—that will keep your heart strong and your brain clear, will be the thought of what you have done to help others—what you have left to a world that has offered so much to you.

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